



OLR RESEARCH REPORT

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FLORIDA'S PREPAID TUITION PLAN

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You asked for a description of Florida's prepaid tuition plan.

SUMMARY

Prepaid tuition plans allow parents and others to prepay all or part of a child's future college education at an in-state public institution. They may also be converted for use at private and out-of-state colleges. Prepaid tuition plans are available only for undergraduate education.

Section 529 of the Internal Revenue Code allows states to offer prepaid tuition plans. The payouts from these plans are tax-exempt as long as they are used to pay qualified higher education expenses (e.g., tuition and fees).

Florida's plan is administered by the Florida Prepaid College Board and covers the cost of in-state tuition and certain fees at Florida public higher education institutions. As of 2011, the plan had made \$1.8 billion in payments to Florida's state colleges and universities, and more than 970,000 beneficiaries were enrolled in the plan.

The plan includes options for different types of institutions (e.g., two-year and four-year institutions) and is priced based on the type of institution and the beneficiary's age or grade level at the time it is purchased. It may also be used at private or out-of-state institutions; students are credited an amount equal to the average rates payable to in-state public institutions. Additionally, the state offers a dormitory plan, which allows for the prepayment of a standard double-occupancy, air-conditioned dormitory at a state university.

A plan is refundable and may be cancelled or modified after it is purchased, but there may be fees or tax consequences for doing so.

PLAN OPTIONS

State College and University Plans

Florida's higher education system includes state universities and state colleges. The universities offer four-year degrees and the colleges generally offer two-year degrees, but some colleges also offer four-year degrees.

Accordingly, Florida's prepaid tuition plan offers four different options: (1) two years at a college (60 lower division hours), (2) four years at a college (60 lower division and 60 upper division hours), (3) two years at a college (60 lower division hours) followed by two years at a university (60 undergraduate hours), and (4) four years at a university (120 undergraduate hours).

Each option covers the cost of in-state tuition and fees at the respective type of institution. They can also be converted for usage at a different type of institution. For instance, a student with a two-year college plan can use that plan at a four-year university and then pay the difference between the university's tuition and fees and the amount covered by the two-year college plan.

Dormitory Plan

The dormitory plan allows for the prepayment of a standard double-occupancy, air-conditioned dormitory at a state university. It may also be applied to other university-held housing, including some fraternity and sorority houses. However, private dorms are not covered. Additionally, purchasing a plan does not guarantee a room assignment. (A refund is issued if no room is available.)

Dormitory plans may be purchased in one-year increments and are available only to students with a four-year university plan or a two plus two plan; they cannot be purchased on their own.

ELIGIBILITY

A Florida prepaid plan may be opened for a beneficiary from his or her birth until 11th grade. The beneficiary has 10 years from his or her projected college or university enrollment date to use the benefits, but can receive an extension upon request. Service in the military does not count against the 10-year requirement.

Any person can open or contribute to a prepaid tuition plan, but the beneficiary must have been a Florida resident for the 12 months prior to the plan's opening (or have been born and lived continuously in Florida if less than a year old). Additionally, a student residing outside of Florida is eligible to be a beneficiary if his or her noncustodial parent resides in Florida.

The residency requirement only applies at the time of purchase; there are no consequences associated with a beneficiary or parent moving out of Florida after the plan is purchased. Additionally, a beneficiary who moves out of Florida can still register at a public college or university as an in-state Florida student.

PAYMENT OPTIONS

The plan has an annual open enrollment period that generally lasts from mid-October through the following January 31. The pricing depends on the beneficiary's grade level (or age if not yet in school) as of the September 1 before the open enrollment period.

The plan has three payment options, each of which begins in the April following enrollment: (1) full prepayment, (2) 55 consecutive monthly payments, or (3) monthly payments that last until October of the year the child is expected to start college. The monthly and 55-month plans include an average effective interest rate of 4.09%.

Table 1 below shows current pricing options for the four-year university plan. The prices apply to plans opened during the open enrollment period that ends on January 31, 2013 and remain in effect for the life of the plan.

Table 1: Pricing for Four-Year Florida University Plan

Current Grade/Age	Projected Enrollment Year	Monthly Payment Plan	55 Month Payment Plan	Lump Sum Payment Plan
11th	2014	\$1,850.33	N/A	\$34,619.12
10th	2015	1,253.81	N/A	37,849.48
9th	2016	982.54	N/A	40,656.28
8th	2017	818.89	\$818.89	42,782.34
7th	2018	704.15	845.61	44,178.32
6th	2019	643.05	896.79	46,852.19
5th	2020	592.46	936.24	48,913.53
4th	2021	537.42	944.56	49,348.30
3rd	2022	494.07	951.66	49,718.95
2nd	2023	459.21	958.13	50,057.15
1st	2024	430.91	964.26	50,377.22
K	2025	407.46	970.42	50,699.09
Age 4	2026	388.12	977.18	51,052.28
Age 3	2027	372.12	984.99	51,460.43
Age 2	2028	359.04	994.29	51,946.27
Age 1	2029	348.26	1005.11	52,511.23
Infant	2030	339.33	1016.78	53,121.24
Newborn	2031	331.59	1028.42	53,729.20

Source: Florida Prepaid College Board

Note: Infants refer to children born on or before September 1, 2012 who are not yet one year old. Newborns refer to children born after September 1, 2012.

CHANGES AND CANCELLATIONS

Florida offers several options for making changes to a prepaid tuition plan. For instance, a plan can be downgraded to a less-expensive plan after it is purchased (e.g., from a four-year university plan to a four-year college plan), as long as it is done before the beneficiary begins using the benefits. Similarly, a dormitory plan can be downgraded to one that pays for fewer years of housing.

However, plans cannot be upgraded, and a downgraded plan cannot be reinstated to its original level. The refund amount for a downgrade equals the difference between the amount paid for the original plan and the amount that would have been paid for the lesser plan to that point.

If the beneficiary does not attend college, the account can be transferred to another qualified family member, or it can be cancelled for a refund. The substitute beneficiary must (1) be a member of the original beneficiary's family and (2) meet the Florida residency requirement at the time of substitution. The board may assess a fee if the substitute beneficiary is more than three years younger or older than the original beneficiary.

REFUNDS

Refunds are available to purchasers in a variety of situations, such as an unavailable dormitory, the beneficiary's death or disability, a beneficiary withdrawing from or not attending college, or a plan cancellation. Most refunds are for the amount paid by the purchaser, minus any benefits received or fees assessed. A cancellation fee is assessed only for plans cancelled within two years after being opened.

In some cases (e.g., a beneficiary's death or disability), a refund includes earnings from the account in addition to the contributions made to it. The purchaser is subject to federal income taxes on the earnings portion of these refunds.

ADDITIONAL RESOURCES

Florida Prepaid College Plan: <http://www.myfloridaprepaid.com/>.

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